

North Dakota Office of State Tax Commissioner

2001

# Schedule RZ booklet

Renaissance Zone Act exemption and tax credits

This booklet contains:

- Schedule RZ
- Instructions

**S**chedule RZ is a supplemental form that must be completed and attached to the North Dakota tax return by a taxpayer claiming any of the income or financial institution tax incentives under the North Dakota Renaissance Zone Act.

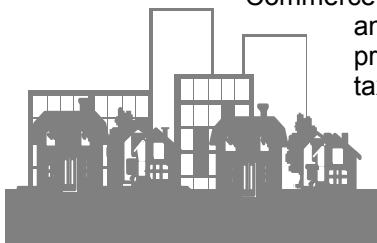
North Dakota Renaissance Zones

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Tax Commissioner

# The North Dakota Renaissance Zone Act

("Act") was enacted by North Dakota's Fifty-Sixth Legislative Assembly (1999 Session). It authorizes a North Dakota city to apply to the state for designation of part of the city as a renaissance zone. It is a tool that North Dakota communities can use to redevelop and revitalize a portion of their communities to attract and retain new residents and businesses. Two North Dakota agencies are responsible for the administration of the Act: the

Commerce Department's Division of Community Services and the Office of State Tax Commissioner. The Act provides income, financial institution, and property tax incentives to individuals and businesses for making qualified investments in a North Dakota renaissance zone. (For more information on the property tax incentives under the Act, contact the city assessor for the city in which the zone is located.)



## 2001 legislative changes

Following is a summary of the changes made to the North Dakota Renaissance Zone Act by the 2001 North Dakota Legislature. (N.D.C.C. ch. 40-63, as amended by Senate Bill 2033; S.L. 2001, ch. 359.)

### Single-family residence income tax credit

Eligibility for the single-family residence individual income tax credit (of up to \$10,000) was expanded to include the rehabilitation of a residence already owned by an individual. To qualify, the rehabilitation cost must equal or exceed 20 percent of the residence's property tax valuation. The 5-year credit period begins in the month the rehabilitation is completed. This change applies to zone projects approved after December 31, 1999.

### Business and investment income exemption

The provisions providing for the business and investment income exemptions for income and financial institution tax purposes were combined into one exemption. Determining whether the project property is used for business or investment purposes no longer has to be made to determine the project's eligibility. The amount of the exemption, though, still remains dependent on whether the property is used in a business or is a passive investment.

In addition, the exemption was extended to a rehabilitation of residential or commercial real property. To qualify, the rehabilitation cost must equal or exceed 50 percent (20 percent in the case of a single-family residence) of the property's value for property tax purposes. The 5-

year exemption period begins in the month the rehabilitation is completed. These changes apply to zone projects approved after December 31, 1999.

### New individual income tax credit in lieu of business and investment income exemption

A new elective individual income tax credit was created for individuals. If an individual qualifies for the business income exemption under the Act, the individual may elect to take an income tax credit of up to \$2,000 in lieu of taking the exemption. To qualify to make this election, the individual must invest at least \$75,000 to purchase or expand a business that is located in a city with a population of no more than 2,500. The election is not revocable for five years and must be part of the zone project application. This change applies to zone projects approved after December 31, 1999.

### Tax credit for preserving or renovating historic property

The credit for investing in the preservation or renovation of historic property was changed from 50 percent to 25 percent of the amounts invested in all tax years, not to exceed \$250,000 per zone project. The tax year in which the tax credit may be claimed was changed to the tax year in which the work is completed. In addition, the sunset date of December 31, 2004, was removed to

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## Where to get help

If you have questions about the tax incentives under the Act or the completion of Schedule RZ:

### Call

Toll-free (in ND) 1-800-638-2901  
General (701) 328-2770  
Individual income tax (701) 328-3450  
Corporation income & financial institution taxes (701) 328-2046

Speech or hearing impaired—call Relay North Dakota at 1-800-366-6888 (*ask for 1-800-638-2901*)

### E-mail

E-mail us at: [taxinfo@state.nd.us](mailto:taxinfo@state.nd.us). Or, go to our web site at [www.ndtaxdepartment.com](http://www.ndtaxdepartment.com) and click on **Feedback**.

### Write to

ND Office of State Tax Commissioner  
State Capitol, 16th Floor  
600 East Boulevard Avenue  
Bismarck, ND 58505-0599

### Web site

[www.ndtaxdepartment.com](http://www.ndtaxdepartment.com)

allow qualifying investments to be made after 2004. These changes apply to zone projects approved after July 31, 2001.

### Renaissance fund organization

The term “renaissance fund corporation” was changed to “renaissance fund organization” (RFO) to allow any type of entity to be used as the vehicle for raising funds to invest in zone projects. Another change allows an RFO to use its funds to make investments in (1) zone projects located in any renaissance zone in the state and (2) businesses which are not zone projects but are located in the zone of the city that established the RFO. These changes took effect August 1, 2001.

### Tax credit for investing in a renaissance fund organization

A \$2.5 million increase in the statewide ceiling on the total credits allowed for investments in renaissance fund organizations was authorized, subject to the following:

- The increase is allowed only if the original \$2.5 million ceiling (authorized by the 1999 North Dakota Legislature) is reached.
- The additional \$2.5 million of tax credits is allowed only for investments in a renaissance fund organization that (1) has used over 65 percent of its net investments to provide financial assistance to qualifying zone projects or (2) was established after the original \$2.5 million credit ceiling is reached.
- If triggered, the \$2.5 million increase will be phased in as follows: \$1 million for investments made after December 31, 2000, and \$1.5 million for investments made after December 31, 2002.

This change took effect August 1, 2001.

## 2001 Schedule RZ instructions General information

### Purpose of form

Schedule RZ is a supplemental schedule that must be completed by a taxpayer claiming any of the income or financial institution tax incentives available under the North Dakota Renaissance Zone Act. It must be attached to the taxpayer's North Dakota tax return.

### Available tax incentives

The Act provides the following five tax incentives for income tax and financial institution tax purposes:

- A five-year business or investment income exemption is allowed for purchasing, leasing, or making a qualified rehabilitation to residential or commercial real property located in a zone that is used for any business or investment purpose. This exemption is available for income and financial institution tax purposes. See **Instructions for Part 1: Business or investment income exemption** on page 4.
- An elective income tax credit of up to \$2,000 per year for five years is allowed in lieu of the business income exemption (*see preceding paragraph*) to an individual who purchases or expands a business in a zone. To qualify, the individual must invest at least \$75,000 in the project, and the zone must be located in a city with a population of no more than 2,500. See **Instructions for Part 2: Business purchase or expansion tax credit** on page 7.
- An income tax credit up to \$10,000 per year for five years is allowed to an individual for purchasing a single-family residence located in a zone, provided the residence is the

individual's primary place of residence. See **Instructions for Part 3: Single-family residence tax credit** on page 9.

- A tax credit equal to 25 percent of the amount invested is allowed for preserving or renovating certified historic property located in a zone. This tax credit is available for income and financial institution tax purposes. See **Instructions for Part 4: Historic property preservation or renovation tax credit** on page 10.
- A tax credit equal to 25 percent of the amount invested is allowed for investing in a renaissance fund organization. See **Instructions for Part 5: Renaissance fund organization investment tax credit** on page 11.

### Definitions

Unless stated otherwise in these instructions, the following definitions apply:

**Act**—means the Renaissance Zone Act under North Dakota Century Code ch. 40-63.

**Local zone authority**—means the governing body of the city in which the zone is located, or the entity designated by the city governing body to promote, develop, and manage the zone.

**Parcel of property**—means a specific piece of real property consisting of land and the buildings, fixtures, structures, and improvements affixed to the land.

**Pass-through entity**—means a partnership, S corporation, or other entity that passes its income, gains, deductions, and credits through to its owners for federal income tax purposes.

**Primary place of residence**—means the physical place of abode that constitutes an individual's legal residence. An individual's legal residence is the individual's true, fixed and permanent home. It is the place to which an individual intends to return whenever absent from it. While an individual may have more than one physical place of abode, only one of them may be the individual's legal residence. Legal residence is based on each individual's facts and circumstances as well as the individual's intent.

**Rehabilitation**—means the repair or remodeling of a building at a cost that equals or exceeds a specified percentage of the building's current true and full value for property tax purposes. The specified percentage is 50 percent for a commercial building and 20 percent for a single-family residence.

**Single-family residence**—means a single-family detached home, townhouse, single unit in a duplex, or a condominium.

**Renaissance fund organization**—means an entity established by a city for the sole purpose of raising funds to be used for investments in and providing financing to zone projects.

**Taxpayer**—means an individual, estate, trust, partnership, corporation, limited liability company, or other entity subject to N.D.C.C. ch. 57-35.3 (relating to the financial institution tax) or N.D.C.C. ch. 57-38 (relating to the income tax).

**Zone**—means a state-approved renaissance zone created under the Act.

**Zone project**—means a qualifying transaction with respect to a parcel of property located in a zone that is approved by both the local zone authority and the North Dakota Commerce Department's Division of Community Services.

**Zone project property**—means the portion of a parcel of property that has been approved as a zone project.

## Eligibility for tax incentives

Except for the tax credit for investing in a renaissance fund organization (*see Part 5 on page 11 of this booklet*), eligibility for the tax incentives is dependent on having an approved zone project in a renaissance zone.

### Renaissance zone

A renaissance zone is an area within a city that is no more than 20 contiguous blocks, has a continuous boundary, and contains both commercial and residential property. The life of a zone may not exceed fifteen years, and only one zone may be established by a city. To establish a zone, a city must apply to the North Dakota Commerce Department's Division of Community Services.

### Approved zone project

An approved zone project is a transaction in a zone that is approved by both the local zone authority and the North Dakota Commerce Department's Division of Community Services. A taxpayer must apply to the local zone authority for approval of a transaction as a zone project. In general, eligible transactions include the purchase, lease, or rehabilitation residential or commercial real property in a zone. The eligible transactions differ for each tax incentive, so it is important to know which transactions are required to qualify for a particular tax incentive. See the instructions for Parts 1 through 5 of this booklet for the qualifying transactions for each tax incentive.

**Local zone authority.** For more information on applying for a zone project, contact the local zone authority for the renaissance zone in which the project will be located. The city governing body or the North Dakota Commerce Department's Division of Community Services can provide contact information for the local zone authority in each city having a zone.

### Division of Community Services

The North Dakota Commerce Department's Division of Community Services is responsible for administering the Act's provisions covering the establishment and operation of a zone, including the review and approval of zone projects. For more information on North Dakota renaissance zones and zone projects, contact the Division of Community Services as follows:

**Call**  
(701) 328-2094

**Write to**  
ND Commerce Department  
Division of Community Services  
P.O. Box 2057  
Bismarck, ND 58502-2057

**Web site**  
[www.state.nd.us/dcs](http://www.state.nd.us/dcs)

## Zone project approval letter

Upon final approval of a zone project, the North Dakota Commerce Department's Division of Community Services will issue a letter of final approval to the local zone authority. Among other things, the letter will include the following:

- Project number assigned to the project by the local zone authority.
- Description of the tax incentive(s) that the taxpayer qualified for.
- The starting date of the exemption or tax credit period.

This information is important to the proper completion of Schedule RZ. A copy of the approval letter must be attached to the North Dakota tax return along with Schedule RZ. If you do not have a copy of the approval letter, contact your local zone authority to obtain one.

***Note:** In the case of a partnership, S corporation, or other pass-through entity, the copy of the approval letter must be attached to the pass-through entity's tax return. The owners of the pass-through entity do not attach a copy of the approval letter to their North Dakota tax returns. See **Pass-through entity owner** on page 3 for more information.*

## Pass-through entity

If the taxpayer is a partnership, S corporation, or other pass-through entity, the amount of the exemption or credit must be determined at the pass-through entity level. (The business purchase or expansion credit and the single-family residence tax credit are not available to a pass-through entity.) Except as provided below under **Financial institution exception**, the exemption or credit must be passed through to the owners in proportion to their respective interests in the entity.

**Financial institution exception.** In the case of a pass-through entity that is subject to the North Dakota financial institution tax under N.D.C.C. ch. 57-35.3 (Form 35 filer), only the business or investment income exemption may be passed through to the owners. The credits under the Act may **not** be passed through to the owners.

**Pass-through member notice**

A pass-through entity must provide each of its owners with a notice informing them about the pass-through of an income exemption or tax credit. The notice must be provided to them on or before the due date (or extended due date) of the pass-through entity's North Dakota tax return. In the case of a pass-through entity that is subject to the North Dakota financial institution tax under N.D.C.C. ch. 57-35.3 (Form 35 filer), this applies only if the entity qualifies for an income exemption under the Act.

The notice must contain the following:

- The heading: Renaissance Zone Pass-Through Member Notice.
- The statement: This notice contains information that is important to the preparation of your North Dakota tax return. For instructions on how to report this information on your North Dakota return, obtain Schedule RZ from the North Dakota Office of State Tax Commissioner. Attach a copy of this notice to your North Dakota tax return.
- Name and social security number (or FEIN) of the owner.
- If applicable, the zone project number.
- Name, address, and federal employer identification number (FEIN) of the pass-through entity.
- Tax year of the pass-through entity to which the income exemption or tax credit relates.
- If applicable, the zone project number.
- Name and social security number (or FEIN) of the owner.
- Owner's share of the income exemption or tax credit. If the pass-through entity qualified for more than one of the Act's income or financial institution tax incentives, show them separately on the notice. For this purpose, use the following descriptions:
  - ▶ *Business or investment income exemption*
  - ▶ *Historic property preservation or renovation tax credit*
  - ▶ *Renaissance fund organization investment tax credit*

**Pass-through entity owner**

If you own an interest in a partnership, S corporation, or other pass-through entity that qualifies for an income or financial institution tax incentive under the Act, the pass-through entity must provide you with a notice showing your share of the income exemption or tax credit—see **Pass-through member notice** on this page. If you own an interest in a pass-through entity that is subject to the North Dakota financial institution tax under N.D.C.C. ch. 57-35.3 (Form 35 filer), you will receive a pass-through member notice only if an income exemption is passed through to you—the credits under the Act are not passed through to the owners.

If you receive a pass-through member notice, you may claim your share of the exemption or tax credit on your North Dakota tax return as follows:

1. Enter your share of each exemption or credit shown on the Renaissance Zone Pass-Through Member Notice on the applicable line of Schedule RZ. A separate line is provided in Parts 1, 4, and 5 of Schedule RZ for this purpose.
2. Attach Schedule RZ (all three pages) and a copy of the Renaissance Zone Pass-Through Member Notice to your North Dakota tax return.

**Financial institution minimum payment**

The tax incentives under the Act do not affect the \$50.00 minimum payment required of a financial institution under N.D.C.C. § 57-35.3-03.

**Priority of exemptions and credits**

A taxpayer may qualify for more than one tax incentive under the Act. If a taxpayer qualifies for both an income exemption and a tax credit under the Act, the income exemption must be applied first to determine North Dakota taxable income, and the tax credit must be subtracted from the tax calculated on North Dakota taxable income.

**Multiple income exemptions**

If a taxpayer qualifies for both an income exemption under the Act and the new and expanding industry exemption under N.D.C.C. ch. 40-57.1, the following apply:

1. The taxpayer may choose which of the two exemptions to apply first.
2. The income remaining after applying the first exemption must be multiplied by a fraction to determine the amount of income that may be exempted under the exemption that is applied second. In general, the fraction is composed of the following:

- **Numerator**—The numerator is the average value of owned and rented property used in the activity or project for which the exemption applied **second** was granted.
- **Denominator**—The denominator is the average value of the total owned and rented property in North Dakota less the average value of the owned and rented property used in the activity or project for which the exemption applied **first** was granted.

**Average value of property.** The average value of owned property is determined by adding the original cost of the property on the first and last days of the tax year, and then dividing the result by two. The average value of rented property is determined by multiplying the annual gross rents by eight.

**Multiple tax credits**

If you qualify for more than one tax credit under North Dakota law (including the Act), the credits must be applied in the following order:

1. Tax credits that may not be carried back or carried forward to another tax year.
2. Tax credits that may be carried back.
3. Tax credits that may be carried forward.

**Note:** In the case of an individual, the credit for income tax paid to another state must be applied first in all cases.

# Instructions for Part 1

## Business or investment income exemption

### General instructions

#### Eligibility

A five-year income exemption is allowed for income tax purposes (under N.D.C.C. ch. 57-38) or financial institution tax purposes (under N.D.C.C. ch. 57-35.3) for any of the following qualifying transactions:

- **Purchase**—The taxpayer purchases residential or commercial real property in a zone for business or investment purposes. This includes the construction of new residential or commercial real property.
- **Purchase with major improvements**—This is the same as a purchase transaction (above) except that major improvement to the property is necessary before the taxpayer can begin *any* income-producing activity.
- **Lease**—The taxpayer leases residential or commercial real property in a zone for business use only. For this purpose, a lease qualifies if:
  - ▶ The taxpayer moves an existing business into, or establishes a new business in, the leased space.
  - ▶ The taxpayer's business is already located in the zone and the lease is for additional space to accommodate an expansion of the business.
  - ▶ The taxpayer is renewing or continuing a lease for the same space already occupied by the taxpayer's business, provided the building in which the leased space is located is a rehabilitation zone project.
- **Qualified rehabilitation**—The taxpayer makes a qualified rehabilitation to residential or commercial real property

in a zone for business or investment purposes. A qualified rehabilitation means the repair or remodeling of the property at a cost that equals or exceeds 50 percent of the current true and full value of the property for property tax purposes.

This income exemption may be claimed by the following taxpayers:

- An individual (on Form ND-1 or Form ND-2).
- An estate or trust (on Form 38, Schedule 1 or 2).
- A corporation (on Form 40).
- A financial institution (on Form 35).

If the taxpayer is a partnership, S corporation, or other pass-through entity, see **Pass-through entity** on page 2.

#### One exemption per zone project property

The business or investment income exemption is allowed only one time with respect to a particular zone project property over the life of the zone.

**Elective tax credit.** An individual who qualifies for an income exemption under N.D.C.C. § 40-63-04(2) for the purchase of a new business, or for the expansion of an existing business already owned by the individual, may elect to take an income tax credit in lieu of the exemption if certain conditions are met—see **Part 2** on page 7 for more information.

#### Five-year exemption period

The exemption is allowed in each year of a five-year exemption period. For purposes of the Act, the five-year exemption period is a period of sixty consecutive months that begins as follows:

- **Purchase**—For a purchase, the 60-month exemption period begins with the month in which title to the property transfers to the taxpayer.
- **Purchase with major improvement**—For a purchase with major improvements, the 60-month exemption period begins with the month in which the improvement work is completed, as determined by the local zone authority.
- **Lease**—For a lease transaction, the 60-month exemption period begins with the month in which the lease agreement takes effect.

- **Qualified rehabilitation**—For a qualified rehabilitation, the 60-month exemption period begins with the month in which the rehabilitation work is completed, as determined by the local zone authority.

Once the five-year exemption period begins to run, it runs uninterrupted through the end of the exemption period. The 60-month exemption period is available even if the renaissance zone itself expires before the end of the exemption period.

**Transfer of zone project property.** The business income exemption and its five-year exemption period attach to the zone project property. If the zone project property is transferred to another taxpayer before the property's five-year exemption period expires, the exemption and the unused portion of the five-year exemption period transfer with the property.

The taxpayer who transfers the property is ineligible for the exemption starting with the month of disposition. If the property is transferred to a taxpayer who also qualifies for the business income exemption with respect to the property, the taxpayer acquiring the property is eligible for the exemption for the unexpired portion of the five-year exemption period starting with the month of acquisition.

#### Amount of income exemption

The amount of income that may be exempted is dependent on whether the zone project property is used for business or investment purposes. The property is considered used for business purposes if it is used in an occupation, trade, profession, or commercial or mercantile enterprise. Property is used for investment purposes if the property is not part of or used in the regular course of any trade or business of the taxpayer. Unless a taxpayer can show otherwise, any property acquired by a sole proprietorship, partnership, corporation (including an S corporation), limited liability company, or other recognized type of business entity is deemed to be used for business purposes.

Depending on the facts and circumstances, the distinction between business- and investment-use may not always be clear. If in doubt as to whether zone project property is used for business

or investment purposes, the local zone authority or taxpayer is advised to submit a written request for an opinion to the Office of State Tax Commissioner prior to entering the transaction.

**Business use property.** If the zone project property is an integral part of or used in a business, the amount of income that may be exempted is determined in the following two steps:

1. The amount of business income attributable to the zone project property must be determined by multiplying the taxpayer's total North Dakota income derived from the business as a whole by a zone apportionment factor.  
The application of the zone apportionment factor depends on the portion of the real property used in the business that is part of the zone project. If the zone project includes all of the North Dakota real property used in the business, the factor will be 100 percent. If the zone project includes only a portion of the North Dakota real property in the business, the factor will be less than 100 percent. The calculation of the zone apportionment factor is explained on page 14 of these instructions.
2. The amount of the North Dakota business income attributable to the zone project property must then be multiplied by a ratio equal to the number of months of exemption eligibility during the tax year by the number of months in the tax year

The amount of North Dakota business income that may be exempted is calculated in Part 1, lines 9 through 13, of Schedule RZ.

**Investment use property.** If the zone project property is used for investment purposes, the amount of the exemption equals the actual net income derived from the zone project property during the tax year while eligible for the exemption. For this purpose, investment income means:

- Net rental income from the lease of the property.
- Taxable portion of a gain from the sale or exchange of the property. In the case of an installment sale, the taxpayer may exempt the taxable portion of the gain included in each installment payment over the life of

the installment contract. However, interest income derived from an installment sale contract is not eligible for the exemption.

The exemption is allowed only to the extent that the investment income is included in North Dakota taxable income.

The amount of North Dakota investment income that may be exempted is entered in Part 1, line 15, of Schedule RZ.

**Federal income tax deduction.** With respect to completing the North Dakota tax return, if the taxpayer is allowed a federal income tax deduction in determining North Dakota taxable income, a proportionate share of the federal income tax deduction must be allocated to the amount of income exempted under the Act.

*Note: This does not apply to an individual who uses Form ND-1 (or Form 37-S for tax years before 2001).*

## Specific line instructions

### Note: Pass-through entity owner

If you own an interest in a partnership, S corporation, or other pass-through entity, and you are completing Schedule RZ only to claim your share of the business income exemption passed through to you by the entity, skip lines 1 through 13 and go to line 14. See **Pass-through entity owner** on page 3 for more information.

### Line 1

Enter the project number assigned to your zone project by the local zone authority. The project number is shown on the zone project approval letter issued by the North Dakota Commerce Department's Division of Community Services. If you do not have a copy of the zone project approval letter, contact your local zone authority to obtain one.

**Attach a copy of the zone project approval letter to your North Dakota tax return.**

### Line 2

Check the applicable box to identify the renaissance zone city where your zone project is located.

### Line 3

Enter the street address of your zone project property. Include the apartment, suite, or other unit number, if applicable. **Do not** enter a post office box number.

### Line 4

If you qualified for more than one zone project at the same street address, check the "Yes" box and write the project numbers for all of them on the line provided on the schedule.

*Note: If you have more than one zone project for which you qualify for the business or investment income exemption, complete a separate Schedule RZ for each project. Add the separately calculated amounts and enter the total in Part 6, line 1, of one of the schedules.*

### Line 8

Enter the exemption start date for your zone project. This date is shown on the zone project approval letter issued by the North Dakota Commerce Department's Division of Community Services. This date establishes the beginning of the five-year exemption period that applies to your zone project property. This date does not change, even if the property is transferred to another taxpayer. See **Five-year exemption period** on page 4 for more information.

### Line 9

#### North Dakota business income

**Note: If you qualified for the investment income exemption, do not include any of the investment income on this line—see line 15.**

The amount to enter on this line depends on the type of North Dakota tax return that you are required to file. Enter the amount as follows:

- **Resident individual**—If you are a resident individual filing North Dakota Form ND-1 or Form ND-2, enter the net income from Federal Form 1040, Schedule C or Schedule C-EZ. If you have a net loss, enter zero.
- **Nonresident or part-year resident individual**—If you are a nonresident or part-year resident individual doing business in North Dakota as a sole proprietorship, and you are filing:
  - ▶ **Form ND-1**, enter the amount from Schedule ND-1NR, line 3, Column B.

- **Form ND-2**, enter the amount from Schedule 3, Part 2, line 3, Column B. If this amount is a net loss, enter zero.

- **Regular corporation**—If you are a regular corporation filing North Dakota Form 40, enter the amount from Form 40, page 1, line 6 less line 9.

**Exception:** Disregard the above instruction if you are also claiming any of the following: (1) the new and expanding industry exemption under N.D.C.C. ch. 40-57.1; or (2) your share of a business or investment income exemption passed through to you by a partnership or other pass-through entity—see Schedule RZ, Part 1, line 14. If any of these apply, contact the Office of State Tax Commissioner for instructions on how to determine the amount to enter on this line.

- **S corporation**—If you are an S corporation filing North Dakota Form 60, enter the amount from Form 60, page 1, line 16.

**Exception:** Disregard the above instruction if you (1) carry on your trade or business both inside and outside North Dakota and (2) have both resident and nonresident individual shareholders. If this exception applies, contact the Office of State Tax Commissioner for instructions on how to complete Schedule RZ.

- **Partnership**—If you are a partnership filing North Dakota Form 58, enter the amount Form 58, page 1, line 11.

**Exception:** Disregard the above instruction if you (1) carry on your trade or business both inside and outside North Dakota and (2) have both resident and nonresident individual partners. If this exception applies, contact the Office of State Tax Commissioner for instructions on how to complete Schedule RZ.

- **Financial institution**—If you are a financial institution filing North Dakota Form 35, enter the amount from Form 35, page 1, line 6 less line 9.

**Exception:** Disregard the above instruction if you are also claiming your share of a business or investment

income exemption passed through to you by a partnership or other pass-through entity—see Schedule RZ, Part 1, line 14. If applicable, contact the Office of State Tax Commissioner for instructions on how to determine the amount to enter on this line.

- **Fiduciary**—If you are a fiduciary filing North Dakota Form 38, and you are operating a business as a sole proprietorship, enter the net income from the Schedule C or Schedule C-EZ (Form 1040) that you attached to Federal Form 1041. If you have a net loss, enter zero.

**Note:** For a nonresident estate or trust, enter only that portion of the net income from Schedule C or Schedule C-EZ (Form 1040) that is attributable to North Dakota.

#### **Lines 10a through 10h Zone apportionment factor (business income only)**

If your zone project includes all of your business real property in North Dakota, skip lines 10a through 10g and enter 1.000000 on line 10h. Then go to line 11.

If your zone project does not include all of your business real property in North Dakota, you must complete lines 10a through 10g to calculate the zone apportionment factor to enter on line 10h. The instructions for lines 10a through 10g are on page 14 of these instructions.

For purposes of determining whether or not the zone apportionment factor applies, real property includes leaseholds, i.e., real property that you are leasing and using in your business.

#### **Lines 12a through 12c Exemption period limitation (business income only)**

**Full-year eligibility.** If you are eligible for the exemption for your entire 2001 tax year, skip lines 12a and 12b, and enter 1.000000 on line 12c. Then go to line 13. You are eligible for the exemption for your entire 2001 tax year if all of the following apply:

- You were eligible for the business income exemption as of the beginning of your 2001 tax year.  
If you are the first taxpayer to qualify for the business income exemption with respect to the zone project

property, your eligibility began in the month in which the property's 60-month exemption period began. See **Five-year exemption period** on page 4.

If you acquired zone project property that had already qualified for the business income exemption, and you acquired it before the expiration of the property's 60-month exemption period, your eligibility began in the month in which title to the property transferred to you, or in the month in which the lease agreement took effect. See **Transfer of zone project property** on page 4.

- You used the zone project property in your business for your entire 2001 tax year.
- The 60-month exemption period did not expire during your 2001 tax year. This condition applies if the 60th month of the exemption period falls in the last month of your 2001 tax year or later.

**Partial year eligibility.** You are eligible for the business income exemption for only part of your 2001 tax year if any of the following apply:

- You became eligible for the business income exemption during the 2001 tax year in a month other than the first month of the tax year.

If you are the first taxpayer to qualify for the business income exemption with respect to the zone project property, your eligibility began in the month in which the property's 60-month exemption period began. See **Five-year exemption period** on page 4.

If you acquired zone project property that had already qualified for the business income exemption, and you acquired the property before the expiration of the property's 60-month exemption period, your eligibility began in the month in which title to the property transferred to you, or in the month in which the lease agreement took effect. See **Transfer of zone project property** on page 4.

- You sold the zone project property, terminated the lease on the zone project property, or permanently withdrew the zone project property from use in your business during the 2001 tax year.



- The maximum 60-month exemption period allowed for the zone project property expired during the 2001 tax year, and the 60th month is a month other than the last month of the 2001 tax year.

If any of the above conditions apply, you must complete lines 12a through 12c to calculate an exemption period eligibility factor. Enter on line 12a the **smaller** of the following:

- Number of months in the 60-month exemption period available to you as of the beginning of the 2001 tax year.
- Number of months you owned or leased the zone project property during the 2001 tax year. If you acquired the zone project property during the 2001 tax year, include the month of acquisition. If you disposed of the zone project property during the 2001 tax year, exclude the month of disposition.
- Number of months the zone project property was used in your business during the current tax year. Include the month in which the zone project property was first put into use in the business, and exclude the month in which the zone project was permanently removed from use in the business.

#### Line 14

This line applies only if you own an interest in a partnership, S corporation, or other pass-through entity that qualified for the business or investment income exemption. Enter on this line your share of the exemption shown on the Renaissance Zone Pass-Through Member Notice that you received from the pass-through entity. See **Pass-through entity** on page 1 for more information. **Attach a copy of the Renaissance Zone Pass-Through Member Notice to your North Dakota tax return.**

#### Line 15

##### (investment income only)

If you qualified for the investment income exemption, enter the following on this line:

- Rents, less related expenses, from your zone project property that you received during the months you were eligible for the exemption during the 2001 tax year.

- Taxable portion of a gain from the sale or exchange of your zone project property during the five-year exemption period. If sold on an installment basis, the taxable portion of the gain recognized each year is exempted over the life of the contract. Interest income on the contract is not eligible for exemption under the Act.

## Instructions for Part 2 Business purchase or expansion tax credit

### General instructions

#### Eligibility

An individual who qualifies for the income exemption under N.D.C.C. § 40-63-04(2)—see **Part 1**—may elect to take an income tax credit in lieu of the exemption if the following conditions are met:

- The zone project for which the individual qualified for the income exemption consists of either a purchase of a new business or an expansion of an existing business already owned by the individual.
- The cost of the purchase or expansion is more than \$75,000.
- The business is located in a city with a population equal to or less than 2,500.

The tax credit is equal to \$2,000 per year over a five-year credit period. The credit is allowed on Form ND-1 and Form ND-2 (Optional Method). If the allowable credit for any tax year exceeds the individual's tax liability for that tax year, the excess of the credit over the tax liability is not refundable and may not be used to offset the individual's tax liability for any other tax year. For this purpose, "tax liability" means the tax calculated for the tax year less:

- The credit for income tax paid to another state.
- Any other income tax credits allowed under the Act or North Dakota law that the individual chooses to use before applying the business purchase or expansion tax credit. See **Priority of exemptions/credits** on page 3 for more information on the order in which to claim multiple tax credits.

**One tax credit allowed per zone project property.** The tax credit is allowed only one time with respect to a zone project property over the life of the zone. The full 60-month credit period is available even though the zone itself expires before the end of the 60-month credit period.

#### Making the election

To make the election, the zone project application submitted to the local zone authority must include a statement specifically electing to claim the tax credit under N.D.C.C. § 40-63-04(3) in lieu of the income exemption. Once made, the election is irrevocable and binding upon the individual for the entire five-year exemption period that otherwise would have been allowed for purposes of the business income exemption.

#### Five-year credit period

The credit is allowed in each year of a five-year credit period. For purposes of the Act, the five-year credit period is deemed to be a period of sixty consecutive months, consisting of five 12-month periods. The \$2,000 credit corresponds to each of the five 12-month periods. If a taxpayer is not eligible for the tax credit for the entire tax year, a credit equal to \$166.67 (\$2,000 divided by 12) is allowed for each month of eligibility during the tax year.

With respect to a particular zone project property, the 60-month exemption period begins as follows:

- **Purchase**—If the zone project consists of a purchase of a business, the 60-month credit period begins with the month in which the taxpayer takes title to the property.
- **Purchase with major improvements**—If the zone project consists of a purchase of a business, but major improvements to the property are necessary before any income-producing activity can

take place, the 60-month exemption period begins with the month in which the improvement work is completed, as determined by the local zone authority.

- **Expansion**—If the zone project consists of an expansion of an existing business already owned by an individual, the 60-month credit period begins with the month in which the expansion work is completed, as determined by the local zone authority.

Once the 60-month credit period begins to run with respect to the zone project property, it runs uninterrupted through the end of the period.

**Transfer of zone project property.** The tax credit and its five-year credit period attach to the zone project property. If title to the zone project property is transferred to another individual before the end of the five-year credit period, the individual transferring the property is ineligible for the credit starting on the first day of the month in which title passes. If the zone project property is sold to another qualifying individual before the end of the five-year credit period, the individual acquiring the zone project property is eligible for the credit for the unexpired portion of the five-year credit period.

## Specific line instructions

### Line 1

Enter the project number assigned to your zone project by the local zone authority. The project number shown on this line must agree with the project number shown on the zone project approval letter issued by the North Dakota Commerce Department's Division of Community Services. If you do not have a copy of that letter, contact your local zone authority to obtain one.

**Attach a copy of the zone project approval letter to your North Dakota tax return.**

### Line 2

Check the appropriate box to identify the North Dakota city where your zone project property is physically located.

### Line 3

Enter the street address of your project property. **Do not** enter a post office box number.

### Line 4

If you qualified for more than one zone project at the same street address, check the "Yes" box and write the project numbers for all of them on the line provided on the schedule.

### Line 8

Enter the five-year credit period start date for your zone project. This date is shown on the zone project approval letter issued by the North Dakota Commerce Department's Division of Community Services. This date establishes the beginning of the five-year credit period that applies to a particular zone project property. This date does not change with respect to the zone project property, even if the property is transferred to another taxpayer. See **Five-year credit period** on page 7 for more information.

### Line 9

#### Credit period limitation

**Full-year eligibility.** If you are eligible for the credit for your entire 2001 tax year, enter "12" on line 9. Then go to line 10. You are eligible for the credit for your entire 2001 tax year if all of the following apply:

- You were eligible for the credit as of the beginning of your 2001 tax year.  
If you are the first taxpayer to qualify for, and elect to take, the business purchase or expansion tax credit with respect to the zone project property, your eligibility began in the month in which the property's 60-month credit period began—see **Five-year credit period** on page 7. If you acquired zone project property to which the business purchase or expansion tax credit had already attached, and you acquired the property before the expiration of the property's 60-month credit period, your eligibility began in the month in which you took title to the property.
- You used the zone project property in your business for your entire 2001 tax year.
- The 60-month credit period did not expire during your 2001 tax year. This condition applies if the 60th month of

the credit period falls in the last month of your 2001 tax year or later.

- **Partial-year eligibility.** You are eligible for the credit for only part of your 2001 tax year if any of the following apply:
- You became eligible for the credit during the 2001 tax year in a month other than the first month of the tax year.  
If you are the first taxpayer to qualify for, and elect to take, the credit with respect to the zone project property, your eligibility began in the month in which the property's 60-month credit period began—see **Five-year credit period** on page 7. If you acquired zone project property to which the business or expansion tax credit had already attached, and you acquired the property before the expiration of the property's 60-month credit period, your eligibility began in the month in which you took title to the property.
- You sold or otherwise disposed of the zone project property during the 2001 tax year.
- The 60-month credit period expired during the 2001 tax year, and the 60th month is not the last month of the tax year.

If any of the above conditions apply, enter on line 9 the number of months you are eligible for the credit during the 2001 tax year. The number of months you are eligible for the credit for the 2001 tax year is the **smaller** of the following:

- Number of months in the 60-month exemption period available to you as of the beginning of the 2001 tax year.
- Number of months you owned the zone project property during the 2001 tax year. If you acquired the zone project property during the 2001 tax year, include the month of acquisition. If you disposed of the zone project property during the 2001 tax year, exclude the month of disposition.
- Number of months the zone project property was used in your business during the current tax year. Include the month in which the zone project property was first put into use in the business, and exclude the month in which the zone project was permanently removed from use in the business.

## Instructions for Part 3

### Single-family residence tax credit

#### General instructions

##### Eligibility

An income tax credit is available to an individual for purchasing or making a qualified rehabilitation to a single-family residence in a renaissance zone that is used by the individual as the primary place of residence. For this purpose, a purchase includes the construction of a new single-family residence.

The credit is equal to \$10,000 per year for five years. The credit is allowed on both Form ND-1 and Form ND-2. If the allowable credit for any tax year exceeds the individual's tax liability for that tax year, the excess of the credit over the tax liability is not refundable and may not be used to offset the individual's tax liability for any other tax year. For this purpose, "tax liability" means the tax calculated for the tax year less:

- The credit for income tax paid to another state.
- Any other income tax credits allowed under the Act or North Dakota law that the individual chooses to use before applying the single-family residence tax credit. See **Priority of exemptions/credits** on page 3 for more information on the order in which to claim multiple tax credits.

**One tax credit allowed per single-family residence.** Only one tax credit is allowed per single-family residence over the life of the zone.

**Single-family residence.** A single-family residence means a single-family detached home, a single unit in a duplex or condominium, or a townhouse.

**Primary place of residence.** A primary place of residence is a physical place of abode that is the individual's legal

residence (or domicile). An individual's legal residence is the individual's true, fixed and permanent home. It is the place to which an individual intends to return whenever absent from it. While an individual may have more than one physical place of abode, only one of them may be the individual's legal residence. Legal residence is based on each individual's facts and circumstances as well as the individual's intent.

**Qualified rehabilitation.** A qualified rehabilitation means the repair or remodeling of the residence at a cost equal to or more than 20 percent of the residence's current true and full value as used for property tax purposes.

##### Five-year credit period

The credit is allowed in each year of a five-year credit period. For purposes of the Act, the five-year credit period is deemed to be a period of sixty consecutive months, consisting of five 12-month periods. The \$10,000 credit corresponds to each of the five 12-month periods. If a taxpayer is not eligible for the tax credit for the entire tax year, a credit equal to \$833.33 (\$10,000 divided by 12) is allowed for each month of eligibility during the tax year.

With respect to a particular zone project property, the 60-month exemption period begins as follows:

- **Purchase**—If the zone project consists of a purchase of a single-family residence, the 60-month credit period begins with the month in which the individual takes title to the property or occupies the residence, whichever occurs later.
- **Qualified rehabilitation**—If the zone project consists of a qualified rehabilitation to a single-family residence already owned by the individual, the 60-month credit period begins with the month in which the rehabilitation work is completed, as determined by the local zone authority.

Once the five-year credit period begins to run, it runs uninterrupted through the end of the five-year credit period. The entire five-year credit period is available even if the renaissance zone itself expires before the end of the five-year credit period.

**Transfer of zone project property.** The tax credit and its five-year credit period attach to the single-family residence. If the residence is transferred to another qualifying individual before the five-year credit period expires, the tax credit and the unused portion of the five-year credit period transfer with the property.

The individual who transfers the residence is ineligible for the tax credit starting with the month of disposition. If the residence is transferred to another individual who also qualifies for the tax credit with respect to the residence, the individual acquiring the property is eligible for the tax credit for the unexpired portion of the five-year credit period starting with the month of acquisition.

**Change in primary place of residence.** If an individual who qualifies for the tax credit with respect to a single-family residence ceases to use it as the primary place of residence, i.e., as the legal residence, during the five-year credit period, the individual is ineligible for the tax credit starting with the first day of the month in which the primary place of residence changed.

#### Specific line instructions

##### Line 1

Enter the project number assigned to your zone project by the local zone authority. The project number is shown on the zone project approval letter issued by the North Dakota Commerce Department's Division of Community Services. If you do not have a copy of the zone project approval letter, contact your local zone authority to obtain one.

**Attach a copy of the zone project approval letter to your North Dakota tax return.**

##### Line 2

Check the appropriate box to identify the North Dakota city where your zone project property is physically located.

##### Line 3

Enter the street address of your project property. **Do not** enter a post office box number.

**Line 4**

If you qualified for more than one zone project at the same street address, check the "Yes" box and write the project numbers for all of them on the line provided on the schedule.

**Line 9**

Enter the five-year credit period start date for your zone project. This date is shown on the zone project approval letter issued by the North Dakota Commerce Department's Division of Community Services. This date establishes the beginning of the five-year credit period that applies to a particular zone project property. This date does not change with respect to the zone project property, even if the property is transferred to another taxpayer. See **Five-year credit period** on page 9 for more information.

**Line 10****Credit period limitation**

The credit is allowed for only that portion of your tax year for which you are eligible for the credit.

**Full-year eligibility.** If you are eligible for the tax credit for your entire 2001 tax year, enter "12" on line 10. Then go to line 11. You are eligible for the credit for your entire 2001 tax year if all of the following apply:

- You were eligible for the credit as of the beginning of your 2001 tax year.  
If you are the first taxpayer to qualify for the credit with respect to the zone project property, your eligibility began in the month in which the property's 60-month credit period began—see **Five-year credit period** on page 9.  
If you acquired zone project property to which the single-family residence tax credit had already attached, and you acquired the property before the expiration of the property's 60-month credit period, your eligibility began in the month in which you either took title to the residence or first occupied the residence, whichever occurred later.
- You used the zone project property as your primary place of residence for your entire 2001 tax year.
- The 60-month credit period did not expire during your 2001 tax year. This condition applies if the 60th month of

the credit period falls in the last month of your 2001 tax year or later.

**Partial-year eligibility.** You are eligible for the credit for only part of your 2001 tax year if any of the following apply:

- You became eligible for the credit during the 2001 tax year in a month other than the first month of the tax year.  
If you are the first taxpayer to qualify for the credit with respect to the zone project property, your eligibility began in the month in which the property's 60-month credit period began—see **Five-year credit period** on page 9.  
If you acquired zone project property to which the single-family residence tax credit had already attached, and you acquired the property before the expiration of the property's 60-month credit period, your eligibility began in the month in which you either took title to the residence or first occupied the residence, whichever occurred later.
- You sold or otherwise disposed of the residence during the 2001 tax year.
- You established another residence as your primary place of residence during the 2001 tax year.
- The 60-month credit period expired during the 2001 tax year, and the 60th month is not the last month of the tax year.

If any of the above conditions apply, enter on line 10 the number of months you are eligible for the credit during the 2001 tax year. The number of months you are eligible for the credit for the 2001 tax year is the **smaller** of the following:

1. The number of months in the 60-month credit period available to you as of the beginning of the 2001 tax year.
2. The number of months you owned and occupied the residence during the 2001 tax year.

## Instructions for Part 4

### Historic property preservation or renovation tax credit

#### General information

##### Eligibility

A tax credit is allowed to a taxpayer for income tax purposes (under N.D.C.C. ch. 57-38) or financial institution tax purposes (under N.D.C.C. ch. 57-35.3) for making an investment in the preservation or renovation of zone project property consisting of historic property.

This tax credit may be claimed by the following taxpayers:

- An individual (on Form ND-1 or Form ND-2).
- An estate or trust (on Form 38, Schedule 1 or 2).
- A corporation (on Form 40).
- A financial institution (on Form 35).

**Pass-through entity.** If the taxpayer is a partnership, S corporation, or other pass-through entity, see **Pass-through entity** on page 2.

##### Amount of tax credit

The tax credit is equal to 25 percent (25%) of the total amount invested in the project, up to a maximum credit of \$250,000. The first tax year in which the credit is allowed is the tax year in which the preservation or renovation work is completed, as determined by the local zone authority. If the credit exceeds the taxpayer's tax liability for the tax year in which the credit is first allowed, the unused credit may be carried forward for up to five tax years.

##### Historic property

Historic property means property that the North Dakota Historical Society certifies to be:

- Listed on the National Historic Register of Historic Places.
- A contributing structure within a National Register Historic District, or a certified state or local historic district.
- Eligible for listing in the National Historic Register of Historic Places.

Certification of historic property for purposes of the Act is part of the zone project application process, and the taxpayer will receive written notification of the certification from the local zone authority.

## Specific line instructions

### Note: Pass-through entity owner

If you are a pass-through entity owner and you are completing Schedule RZ only to claim your share of the historic property preservation or renovation tax credit passed through to you by the pass-through entity, skip lines 1 through 6 and complete lines 7 through 11. See **Pass-through entity owner** on page 3 for more information.

### Line 1

Enter the project number assigned to your zone project by the local zone authority. The project number is shown on the zone project approval letter issued by the North Dakota Commerce Department's Division of Community Services. If you do not have a copy of the zone project approval letter, contact your local zone authority to obtain one.

**Attach a copy of the zone project approval letter to your North Dakota tax return.**

### Line 2

Check the appropriate box to identify the North Dakota city where your zone project is physically located.

### Line 3

Enter the street address of your project property. Include the apartment, suite, or other unit number, if applicable. **Do not** enter a post office box number.

### Line 4

If you qualified for more than one zone project at the same street address, check

the "Yes" box and write the project numbers for all of them on the line provided on the schedule.

***Note:** If you have more than one zone project for which you qualify for the historic property preservation or renovation tax credit, complete a separate Schedule RZ for each project. Add the separately calculated amounts and enter the total in Part 6, line 4, of one of the schedules.*

### Line 7

This line applies only if you own an interest in a partnership, S corporation, or other pass-through entity that qualified for the historic property preservation or renovation tax credit. Enter on this line your share of the tax credit shown on the Renaissance Zone Pass-Through Member Notice that you received from the pass-through entity. See **Pass-through entity** on page 2 for more information.

**Attach a copy of the Renaissance Zone Pass-Through Member Notice to your North Dakota tax return.**

### Line 10

#### Current year credit

Enter on this line the portion of your total available tax credit (on line 9) that you are actually offsetting against your 2001 tax liability. In determining this amount, you must first use the amount of any tax credit attributable to qualifying payments made in your 2001 tax year (total of lines 6c and 7). Then, you must use any tax credit carryforward from a prior year (on line 8) starting with the earliest tax year.

**Attach a statement showing how you determined the amount entered on this line.**

### Line 11

#### Carryforward to 2002

If your total available tax credit (on line 9) exceeds the amount of the tax credit that you are offsetting against your 2001 tax liability (on line 10), enter on this line the portion of the excess that is eligible for carryforward to your 2002 tax year.

**Attach a statement showing how you determined the amount entered on this line.**

## Instructions for Part 5

## Renaissance fund organization investment tax credit

## General instructions

### Eligibility

A tax credit is allowed to a taxpayer for income tax purposes (under N.D.C.C. ch. 57-38) or financial institution tax purposes (under N.D.C.C. ch. 57-35.3) for making an investment in a renaissance fund organization established by a zone.

This tax credit may be claimed by the following taxpayers:

- An individual (on Form ND-1 or Form ND-2).
- An estate or trust (on Form 38, Schedule 1 or 2).
- A corporation (on Form 40).
- A financial institution (on Form 35).

**Pass-through entity.** If the taxpayer is a partnership, S corporation, or other pass-through entity, see **Pass-through entity** on page 2.

### Amount of tax credit

The tax credit is equal to 50 percent (50%) of the amount invested during the tax year. If the tax credit exceeds the taxpayer's tax liability for the tax year in which the investment is made, the excess tax credit may be carried forward and used in the following five tax years.

### Maximum tax credits

On a statewide basis, the maximum amount of tax credits allowed for investments made by all taxpayers in all tax years is \$2.5 million.\* This statewide maximum is allocated to three categories of cities based on population, as determined by the North Dakota Commerce Department's Division of Community Services. Credits in excess of the city or statewide maximum amount

are not allowed. For purposes of determining which taxpayers are allowed the credits when the city or statewide maximum amount is reached, the credits will be allowed to taxpayers based on the filing of investment reporting forms by the renaissance fund organization—see **Investment reporting form** below.

The tax credits will be allowed on a first-come basis according to the date the investment reporting forms are received by the Office of State Tax Commissioner. If the tax credits attributable to the investments shown on the investment reporting forms received on a particular day exceed the city or statewide maximum amount, the tax credits will be allowed based on the time of day the investments were received by the renaissance fund organization, as shown on the investment reporting form.

*\* Note: If this original \$2.5 million credit ceiling is reached, an additional \$2.5 million will be made available to renaissance fund organizations that meet certain investment thresholds or are established after the original \$2.5 million credit ceiling is reached.*

### Investment reporting form

When a taxpayer makes an investment in a renaissance fund organization, the renaissance fund organization must complete a North Dakota Renaissance Fund Organization Investment Reporting Form. Two copies of the completed form must be given to the taxpayer. The taxpayer must attach one copy of the form to the North Dakota tax return along with Schedule RZ. The other copy should be retained by the taxpayer.

This form must also be completed by the renaissance fund organization if there is a redemption of an investment by the taxpayer who originally made the investment—see **Disqualifying redemption** below.

### Disqualifying redemption

The tax credit is disallowed and must be repaid to the state by a taxpayer if the taxpayer originally made the investment and redeems the investment within ten years of making the investment. For this purpose, “redeem” means that the taxpayer initiates a transaction with the renaissance fund organization in which the taxpayer receives cash or property in

return for the stock or other investment interest. A disqualifying redemption does not occur if a taxpayer transfers part or all of an investment interest to a third party, nor does it occur if the renaissance fund organization initiates the transaction.

If there is a disqualifying redemption, the renaissance fund organization must complete another North Dakota Renaissance Fund Organization Investment Reporting Form to record the redemption transaction. Two copies of the completed form must be given to the taxpayer. The taxpayer must attach one copy of the form to the North Dakota tax return. The other copy should be retained by the taxpayer.

**Repayment of disallowed credit.** A credit disallowed as the result of a disqualifying redemption must be repaid to the state. The repayment must be made with the North Dakota tax return filed for the year in which the redemption occurred. No penalty or interest applies to a timely repayment of the disallowed credit. **Do not** file an amended return or use Schedule RZ to report the redemption.

**If a taxpayer makes a disqualifying redemption in 2001, the taxpayer must contact the Office of State Commissioner for instructions on how to report the redemption on the North Dakota tax return.**

## Specific line instructions

### Note: Pass-through entity owner

If you are a pass-through entity owner and you are completing Schedule RZ only to claim your share of the renaissance fund organization investment tax credit passed through to you by the pass-through entity, skip lines 1 through 3 and complete lines 4 through 8. See **Pass-through entity owner** on page 3 for more information.

### Line 1

Check the appropriate box to identify the North Dakota renaissance zone city to which your investment in the renaissance fund organization was directed. This city will be identified on the North Dakota Renaissance Fund Organization Investment Reporting Form that you received from the renaissance fund organization.

### Line 4

This line applies only if you own an interest in a partnership, S corporation, or other pass-through entity that qualified for the renaissance fund organization investment tax credit. Enter on this line your share of the tax credit shown on the Renaissance Zone Pass-Through Member Notice that you received from the pass-through entity. See **Pass-through entity** on page 2 for more information.

**Attach a copy of the Renaissance Zone Pass-Through Member Notice to your North Dakota tax return.**

### Line 7

#### Current year credit

Enter on this line the portion of your total available tax credit (on line 6) that you are actually offsetting against your 2001 tax liability. In determining this amount, you must first use the amount of any tax credit attributable to qualifying investments made in your 2001 tax year (total of lines 3 and 4). Then, you must use any tax credit carryforward from a prior year (on line 5) starting with the earliest tax year.

**Attach a statement showing how you determined the amount entered on this line.**

### Line 8

#### Carryforward to 2002

If your total available tax credit (on line 6) exceeds the amount of the tax credit that you are offsetting against your 2001 tax liability (on line 7), enter on this line the portion of the excess that is eligible for carryforward to your 2002 tax year.

**Attach a statement showing how you determined the amount entered on this line.**

# Instructions for Part 6

## Exemption and credit summary

### Specific line instructions

#### Line 1

#### Business or investment income exemption

Enter the amount from this line on your North Dakota tax return as follows:

- **Resident individual**—If you are a resident individual filing Form ND-1, enter the exemption amount on page 1, line 11. If you are filing Form ND-2, enter the exemption amount on Schedule 2, line 23.
- **Nonresident or part-year resident individual**—If you are a nonresident or part-year resident individual filing Form ND-1, enter the exemption amount on page 1, line 11. If you are filing Form ND-2, enter the exemption amount on Schedule 3, line 8.
- **Regular corporation**—If you are a regular corporation filing Form 40, enter the exemption amount on Form 40, page 1, line 11.

**Exception:** Disregard the above instruction if you are also claiming (1) the new and expanding industry exemption under N.D.C.C. ch. 40-57.1 or (2) your share of a business or investment income exemption that was passed through to you by a partnership or other pass-through entity—see Schedule RZ, Part 1, line 14. If either of these apply, contact the Office of State Tax Commissioner for instructions on how to complete Form 40 to claim your renaissance zone income exemption.

- **S corporation**—If you are an S corporation filing Form 60, **do not** enter the exemption amount on Form 60. Complete Schedule A on page 2 of Form 60 to show the amount of the exemption amount distributed to each shareholder. You must notify

each shareholder about the pass-through of the exemption amount—see **Pass-through member notice** on page 3 of these instructions for how to prepare the notice.

- **Financial institution**—If you are a financial institution filing Form 35, enter the exemption amount on Form 35, page 1, line 11.

**Exception:** Disregard the above instruction if you are also claiming your share of a business or investment income exemption passed through to you by a partnership or other pass-through entity—see Schedule RZ, Part 1, line 14. If this applies, contact the Office of State Tax Commissioner for instructions on how to complete Form 35 to claim your renaissance zone income exemption.

- **Partnership**—If you are a partnership filing Form 58, **do not** enter the exemption amount on Form 58. You must notify each partner about the pass-through of the exemption amount—see **Pass-through member notice** on page 3 of these instructions for how to prepare the notice.
- **Fiduciary**—If you are a fiduciary for an estate or trust, and the income exemption relates to income included in your federal taxable income, enter the amount of the exemption on Form 38 as follows:
  - ▶ If you are completing Schedule 1 (Main Method) on Form 38, enter the exemption amount on line 5 of Schedule 1. This applies regardless of whether you are filing for a resident or nonresident estate or trust.
  - ▶ If you are completing Schedule 2 (Optional Method) on Form 38, enter the exemption amount on line 4 of Schedule 2.

#### Line 6

#### Total tax credit

Enter your total tax credit from this line on your North Dakota tax return as follows:

- **Individuals**—If you are an individual filing Form ND-1, enter the tax credit amount on page 2, line 18. If you are an individual filing Form ND-2, enter the tax credit amount on page 1, Tax Computation Schedule, line 7.

- **Regular corporation**—If you are a regular corporation filing Form 40, enter the tax credit on Schedule TC, line 10.
- **S corporation**—If you are an S corporation filing Form 60, **do not** enter the tax credit on Form 60. Complete Schedule A on page 2 of Form 60 to show the amount of the tax credit distributed to each shareholder. You must notify each shareholder about the pass-through of the tax credit—see **Pass-through member notice** on page 3 of these instructions for how to prepare the notice.
- **Financial institution**—If you are a financial institution filing Form 35, include the tax credit on page 1, line 17.
- **Partnership**—If you are a partnership filing Form 58, **do not** enter the tax credit on Form 58. You must notify each partner about the pass-through of the tax credit—see **Pass-through member notice** on page 3 of these instructions for how to prepare the notice.
- **Fiduciary**—If you are a fiduciary filing Form 38, enter the amount of the tax credit on page 1, line 12.

### Is your Schedule RZ complete?

#### Have you ...

- ▶ Included all 3 pages of Schedule RZ?
- ▶ Attached a copy of the project approval letter, if applicable?
- ▶ Attached a copy of the Renaissance Zone Pass-Through Member Notice, if applicable?
- ▶ Attached the statements showing how you calculated your credit and any carryforward for Part 4 or Part 5, if applicable?
- ▶ Attached the Renaissance Zone Investment Reporting Form, if applicable.

# Instructions for calculating the zone apportionment factor

(Part 1, lines 10a-10h)

## General instructions

These instructions explain how to calculate the zone apportionment factor in Part 1, lines 10a through 10h. You must calculate the zone apportionment factor if your zone project does not include all of the real property held and used in your business in North Dakota. For this purpose, real property includes leaseholds, i.e., real property that you are leasing and using in your business.

If your zone project includes all of the real property held and used in your business in North Dakota, skip lines 10a through 10g, enter 1.000000 on line 10h, and go to line 11. *If this applies, you may ignore the remainder of these instructions.*

## Factor in general

The zone factor is a fraction composed of the following:

- **Numerator**  
The numerator includes the average value of the owned and rented properties that are used at your business's zone project location.
- **Denominator**  
The denominator includes the average value of owned and rented properties that are used in North Dakota.

## Determining average value of property.

See the specific line instructions for lines 10a through 10g later on this page for how to determine the average value of the property.

**Property includable in zone apportionment factor.** The zone apportionment factor must include all North Dakota real and tangible personal property owned and rented that is used in

the regular course of the taxpayer's business during the tax period.

Real and tangible personal property includes land, buildings, machinery, stocks of goods, equipment, and other tangible property. It does not include coin and currency.

**Property used in the business.** Property is used in the regular course of your business if it is actually used, available for use, or capable of being used in the regular course of the business during the tax period. This includes the following:

- Inventoriable goods in process.
- Property held as reserves or standby facilities, or property held as a reserve source of materials.
- Property under construction if actually used in the regular course of the business, but only to the extent of the value attributable to its use. In the case of an improvement to an existing business that is approved as a zone project, personal property that is purchased for purposes of the improvement and becomes an integral part of the business real property is excluded from the zone factor until completion of the improvement project.

Property required to be included in the zone apportionment factor must remain in the zone apportionment factor until its permanent withdrawal is established by an identifiable event, such as its sale or the lapse of an extended period of time (normally five years) during which the property is held for sale.

## Property used at zone project location.

Property is included in the numerator of the zone apportionment factor if it is physically located and used at the zone project location. Property in transit on the last day of the tax year and mobile or movable property is considered to be located and used at the zone project location in the following situations :

- The property is in transit between separate physical locations of the same business and the property's destination is the zone project location.
- The property is in transit between a buyer and seller and, based on the taxpayer's regular accounting practices, is included in the denominator of the zone factor, and

the property's final destination is the zone project location.

- The mobile or movable property, such as construction equipment, trucks, or leased electronic equipment, is assigned to the zone project location. This includes an automobile assigned to a traveling employee who is assigned to the zone project location.

## Specific line instructions

### Lines 10a through 10d

In **Column A** (Total North Dakota property), enter on the applicable line the average value of the business's tangible assets that are owned and located in North Dakota. In **Column B** (Zone project property only), enter the portion of the amount in Column A that is physically located and used at the zone project location.

**Determining the average value of owned property.** The average value of owned property must be determined by adding the original cost (or other basis used for federal income tax purposes) of the property as properly reported on the books of the business on the first and last days of the tax year and dividing the sum by two. Depreciation, amortization, and depletion must be disregarded. Include capital additions or improvements made during the tax year in this calculation. Note the following special rules:

- Inventory of stock of goods must be valued using the valuation method used for federal income tax purposes.
- Property acquired by gift or inheritance must be valued at its basis for depreciation purposes under federal income tax law.
- Leasehold improvements are considered property owned by the lessee regardless of whether the lessee is entitled to remove the improvements or the improvements revert to the lessor when the lease expires. Value at the original cost of the improvements.

**Monthly averaging exception.** If the averaging method described above does not properly reflect the average value of the property, the tax commissioner may require or allow averaging on a monthly



basis. This method will generally be applied in the following situations:

- There are substantial fluctuations in the values of the property during the tax year.
- The property is acquired after the beginning of the tax year.
- The property is disposed of before the end of the tax year.

#### Example of monthly averaging

Assume the following property values determined as of the end of each month:

January	\$ 2,000
February	2,000
March	3,000
April	3,500
May	4,500
June	10,000
July	15,000
August	17,000
September	23,000
October	25,000
November	13,000
December	<u>2,000</u>
Total	\$ <u>120,000</u>

The average value of the property for the tax year is \$10,000 (\$120,000 divided by 12).

#### Line 10e

##### Other assets

In **Column A** (Total North Dakota property), enter the average value of the business's tangible assets not included on lines 10a through 10d that are owned and located in North Dakota. In **Column B** (Zone project property only), enter the portion of the amount in Column A that is physically located and used at the zone project location. See the instructions for lines 10a through 10d on page 14 for how to determine the average value of the assets.

**Attach a statement specifically identifying the assets included on this line.**

#### Line 10f

##### Rented property

For rented property, enter in **Column A** (Total North Dakota property) the amount determined by multiplying the net annual rental rate by eight. In **Column B** (Zone project property only), enter the portion of the amount in Column A that is

attributable to the rented property that is physically located and used at the zone project location.

***Note:** Leasehold improvements are considered property owned by the lessee regardless of whether the lessee is entitled to remove the improvements or the improvements revert to the lessor when the lease expires. See the instructions to lines 10a through 10e.*

**Net annual rental rate.** The net annual rental rate for an item of rented property equals the annual rental rate that you paid less any subrents that you received from subtenants. If you received subrents, the following apply:

- Do not deduct the subrents from the annual rental rate if they constitute income earned in the regular course of your business.
- If the subrents produce a negative or clearly inaccurate value for any item of rented property, another method that properly reflects the value of the rented property may be required by the tax commissioner or requested by you. For this purpose, the resulting value must not be less than an amount which bears the same ratio to the annual rental rate paid for the rented property as the fair market value of that portion of the rented property used by the taxpayer bears to the total fair market value of the rented property.

**Annual rental rate.** Generally, the annual rental rate means the amount paid as rent for the rented property for a twelve month period. If the property is rented for a term of less than twelve months, the annual rental rate equals the rent paid for the actual rental term during the tax year. If property is rented for a term of twelve or more months and the current tax year covers a period of less than twelve months because of a reorganization or change of accounting period, etc., the rent paid for the short tax year must be annualized.

**Rent.** Rent means the actual sum of money or other consideration payable, directly or indirectly, by you or for your benefit for the use of the rented property, including the following:

- Any amount payable for the use of real or tangible personal property, or any part thereof, whether designated as a

fixed sum of money or as a percentage of sales, profits, or otherwise.

- Any amount payable as additional rent or in lieu of rent, such as interest, taxes, insurance, repairs, or any other items which are required to be paid by the terms of the lease or other arrangement. This does not include an amount paid as a service charge, such as for utilities or janitorial services. If a payment includes both rent and other unsegregated charges, the amount of rent must be determined by considering the relative values of the rent and the other items.

Rent does not include incidental day-to-day expenses, such as hotel accommodations or daily automobile rentals.

**Exception to net annual rental rate method.** If the use of the net annual rental rate method produces a negative or clearly inaccurate value, or where rented property is used by the taxpayer at no charge or rented at a nominal rate, the net annual rental rate for the property must be determined on the basis of a reasonable market rental rate for the property.

Social security number (or FEIN, if applicable)

**► Attach all 3 pages of Schedule RZ to your return**

Taxpayer's name as shown on tax return

Social security number (or FEIN, if applicable)

**Part 2 Business purchase or expansion tax credit****Project Number**

► See the instructions for Part 2 on page 7 of the booklet.

1. Project number assigned by the local zone authority (*Attach a copy of project approval letter*) ..... **1** \_\_\_\_\_
2. City in which renaissance zone is located: ☐ Bismarck ☐ Casselton ☐ Fargo ☐ Grand Forks  
☐ Jamestown ☐ Valley City ☐ West Fargo
3. Street address of project property ► \_\_\_\_\_
4. Do you have more than one project at the address shown on line 3 above? ☐ Yes ☐ No  
 If you checked yes, enter all of the project numbers here ► \_\_\_\_\_
5. Type of qualifying transaction per project approval letter:  
**a** ☐ Purchase **b** ☐ Purchase with major improvement **c** ☐ Expansion
6. If you checked **a** on line 5 above, enter the date you took title to the qualifying property ..... **6** \_\_\_\_ / \_\_\_\_ / \_\_\_\_
7. If you checked **b** or **c** on line 5 above, enter the date the improvement or expansion work was completed ..... **7** \_\_\_\_ / \_\_\_\_ / \_\_\_\_
8. Tax credit period start date per project approval letter ..... **8** \_\_\_\_ / \_\_\_\_ / \_\_\_\_
- See the instructions for line 9 before attempting to complete it.
9. Number of months you are eligible for this credit for the 2001 tax year ..... **9** \_\_\_\_\_
10. Business purchase or expansion tax credit for the 2001 tax year. Enter the applicable amount (*as explained below*) here and on page 3, Part 6, line 2 ..... **10** \_\_\_\_\_
  - If you entered "12" on line 9, enter \$2,000 on line 10.
  - If you entered a number that is less than "12" on line 9, multiply the number on line 9 by \$166.67, and enter the result on line 10.

**Part 3 Single-family residence tax credit****Project Number**

► See the instructions for Part 3 on page 9 of the booklet.

1. Project number assigned by the local zone authority (*Attach a copy of project approval letter*) ..... **1** \_\_\_\_\_
2. City in which renaissance zone is located: ☐ Bismarck ☐ Casselton ☐ Fargo ☐ Grand Forks  
☐ Jamestown ☐ Valley City ☐ West Fargo
3. Street address of project property ► \_\_\_\_\_
4. Do you have more than one project at the address shown on line 3 above? ☐ Yes ☐ No  
 If you checked yes, enter all of the project numbers here ► \_\_\_\_\_
5. Type of qualifying transaction per project approval letter:  
**a** ☐ Purchase **b** ☐ Qualified rehabilitation
6. If you checked **a** on line 5 above, enter the date you took title to the qualifying property ..... **6** \_\_\_\_ / \_\_\_\_ / \_\_\_\_
7. If you checked **a** on line 5 above, enter the date on which you first occupied the qualifying property ..... **7** \_\_\_\_ / \_\_\_\_ / \_\_\_\_
8. If you checked **b** on line 5 above, enter the date on which the rehabilitation work was completed ..... **8** \_\_\_\_ / \_\_\_\_ / \_\_\_\_
9. Tax credit period start date per project approval letter ..... **9** \_\_\_\_ / \_\_\_\_ / \_\_\_\_
- See the instructions for line 10 before attempting to complete it.
10. Number of months you are eligible for this credit for the 2001 tax year ..... **10** \_\_\_\_\_
11. Single-family residence tax credit for the 2001 tax year. Enter the applicable amount (*as explained below*) here and on page 3, Part 6, line 3 ..... **11** \_\_\_\_\_
  - If you entered "12" on line 10, enter \$10,000 on line 11.
  - If you entered a number that is less than "12" on line 10, multiply the number on line 10 by \$833.33, and enter the result on line 11.

► Attach all 3 pages of Schedule RZ to your return

Taxpayer's name as shown on tax return

Social security number (or FEIN, if applicable)

**Part 4 Historic property preservation or renovation tax credit****Project Number**

▶ See the instructions for Part 4 on page 10 of the booklet.

1. Project number assigned by the local zone authority (*Attach a copy of project approval letter*) .....
2. City in which renaissance zone is located: ☐ Bismarck ☐ Casselton ☐ Fargo ☐ Grand Forks  
☐ Jamestown ☐ Valley City ☐ West Fargo
3. Street address of project property ▶ \_\_\_\_\_
4. Do you have more than one project at the address shown on line 3 above? ☐ Yes ☐ No  
 If you checked yes, enter all of the project numbers here ▶ \_\_\_\_\_
5. Total amount paid to preserve or renovate the qualifying historic property ..... **5** \_\_\_\_\_
6. a. Multiply line 5 by 25% (.25)..... **6a** \_\_\_\_\_  
 b. Maximum tax credit per project..... **6b** **250,000**  
 c. Enter the lesser of line 6a or line 6b ..... **6c** \_\_\_\_\_
7. Historic tax credit from a pass-through entity (*Attach copy of Renaissance Zone Pass-Through Member Notice*)..... **7** \_\_\_\_\_
8. Carryforward from 2000 tax year (*from 2000 Schedule RZ, Part 4, line 11*)..... **8** \_\_\_\_\_
9. Total available credit (*Add lines 6c, 7, and 8*)..... **9** \_\_\_\_\_
10. Credit for 2001 tax year (*See instructions*) (*Attach supporting statement*) Enter here and in Part 6, line 4 of this schedule ..... **10** \_\_\_\_\_
11. Carryforward to 2002 tax year (*See instructions*) (*Attach supporting statement*)..... **11**

**Part 5 Renaissance fund organization (RFO) investment tax credit**

▶ See the instructions for Part 5 on page 11 of the booklet.

1. City in which renaissance zone is located to which the investment was directed: ☐ Bismarck ☐ Casselton ☐ Fargo ☐ Grand Forks  
☐ Jamestown ☐ Valley City ☐ West Fargo
2. Amount you invested in the renaissance fund organization during the 2001 tax year (*Attach a copy of the Renaissance Fund Organization Investment Reporting Form that you received from the renaissance fund organization*)..... **2** \_\_\_\_\_
3. Multiply line 2 by 50% (.50)..... **3** \_\_\_\_\_
4. RFO tax credit from a pass-through entity (*Attach copy of Renaissance Zone Pass-Through Member Notice*)..... **4** \_\_\_\_\_
5. Carryforward from 2000 tax year (*from 2000 Schedule RZ, Part 5, line 8*)..... **5** \_\_\_\_\_
6. Total available credit (*Add lines 3, 4, and 5*)..... **6** \_\_\_\_\_
7. Credit for 2001 tax year (*See instructions*) (*Attach supporting statement*) Enter here and in Part 6, line 5 of this schedule ..... **7** \_\_\_\_\_
8. Carryforward to 2002 tax year (*See instructions*) (*Attach supporting statement*)..... **8**

**Part 6 Exemption and tax credit summary**

▶ See the instructions for Part 6 on page 13 of the booklet.

1. Business or investment income exemption (*from Part 1, line 16*) See the instructions for where to enter this amount on your North Dakota tax return ..... **1** \_\_\_\_\_
2. Business purchase or expansion tax credit (*from Part 2, line 10*)..... **2** \_\_\_\_\_
3. Single-family residence tax credit (*from Part 3, line 11*)..... **3** \_\_\_\_\_
4. Historic property preservation or renovation tax credit (*from Part 4, line 10*)..... **4** \_\_\_\_\_
5. Renaissance fund organization investment tax credit (*from Part 5, line 7*)..... **5** \_\_\_\_\_
6. Renaissance zone credit (*Add lines 2 through 5*) See the instructions for where to enter this amount on your North Dakota tax return..... **6** \_\_\_\_\_

▶ Attach all 3 pages of Schedule RZ to your return